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ENERGY FOR DPUMPHREY AND ALOCKWOOD

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TAGS: ENRG EPET PREL VE
SUBJECT: SENATOR COLEMAN MEETS WITH ENERGY COMPANIES IN VENEZUELA

Classified By: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASON 1.4 D

SUMMARY

¶1. (C) During his visit to Venezuela, Senator Norm Coleman held two meetings with leading energy companies. In the first, a meeting with several members of the Venezuelan Hydrocarbons Association (AVHI) hosted by ChevronTexaco President Ali Moshiri, the Senator was given a mixed but somewhat favorable picture of a challenging environment for the operators, but one in which they continued to be profitable and in which ChevronTexaco, in particular, was still investing heavily. In a subsequent one-on-one meeting with Mark Ward, President of ExxonMobil de Venezuela, Senator Coleman was given a less sanguine appraisal of a situation in which the sanctity of contracts was eroding and in which terms were increasingly dictated by rather than negotiated with the government of Venezuela. End Summary.

Oil Industry Roundtable

¶2. (C) Senator Coleman attended a breakfast hosted by ChevronTexaco President for Latin America Upstream Ali Moshiri. The attendees included Luis Grisanti, the Executive President of the Venezuelan Hydrocarbons Association (AVHI-Asociacion Venezolana de los Hidrocarburos-the association that represents the international operators), as well as representatives of U.S. energy companies including Harvest International, Fluor, and Williams.

¶3. (C) Moshiri informed Senator Coleman that his company is the second largest operator in Venezuela after PDVSA. ChevronTexaco's Chairman had visited Venezuela March 29 to sign an agreement with Repsol to partner in a proposed $6 billion investment in heavy oil. ChevronTexaco also plans to invest a further $2.5 billion in development of the Deltana Platform off-shore natural gas project. ChevronTexaco is, said Moshiri, planning a long-term position in Venezuela. In contrast, Tim Penton, Country Manager for Williams which operates world-class gas injection facilities in east Venezuela and formerly operated the Jose petroleum terminal, said it would be a "career ending move" if he were to go to his board to propose a large new investment in Venezuela because his board now views Venezuela as a high risk location.

¶4. (C) Senator Coleman noted that FM Rodriguez had assured him that Venezuela planned to increase production to 5 million barrels per day in order to accommodate long-term U.S. demand as well as that of other clients. Moshiri responded that the era of building and maintaining spare national production capacity to serve consumers is over. Instead, supply and demand will be more closely aligned. The operators who wish to expand their operations in Venezuela will be forced to grapple with issues important to the GOV, such as community development and the GOV's desire to create Venezuelan operators.

¶5. (C) Turning to a discussion of the agreements that the GOV has signed in recent months with "favored states," Moshiri said that there is a natural linkage between Venezuela and Brazil. Other countries, such as China, have been identified by the GOV as strategic partners because the GOV believes they will not interfere in Venezuela's internal politics. China particularly, said Moshiri, can be a tough competitor in this environment because Chinese companies do not need to consider the internal rate of return of a project but rather focus on being the lowest priced bidder regardless of profitability. Moshiri said, however, that he believes Venezuela's relations with the U.S. in the energy sector will continue to be strong because of historic ties, Venezuela's large resource base, and because the U.S. will pay market prices.

¶6. (C) Given the current bilateral relationship, asked Senator Coleman, what gives U.S. companies an edge? The Williams and Fluor representatives responded that U.S.

technology, reliability and efficiency have allowed them to compete. They underlined, however, that these factors are now being discounted by the GOV. They urged that the USG seek to engage the GOV, pointing to interlocutors such as Foreign Minister Rodriguez as willing listeners.

¶7. (C) Grisanti acknowledged that the international operators and others have concerns in Venezuela over issues such as the rule of law. He pointed to the issue of the unilateral royalty increase mandated by the GOV on certain projects as well as the GOV decision to cap the 2005 capital expenditure budgets for certain projects. The best approach is, he said, dialogue and engagement. The GOV is now discussing the budget cuts with individual companies, said Grisanti, which are still concerned but moving forward.

¶8. (C) Moshiri underlined once again that ChevronTexaco looks at Venezuela from a long-term perspective. Taxes on the industry have risen in Argentina from 16.7 percent to almost 60 percent, he said, without much comment. It is more difficult to do business, he said, in Colombia and other countries where ChevronTexaco operates. In these circumstances, said Moshiri, ChevronTexaco assesses risk in Venezuela differently than others do.

Tete a Tete With ExxonMobil

¶9. (C) ExxonMobil requested its own meeting with Senator Coleman to convey its perspective of the situation in Venezuela which differs substantially from that of ChevronTexaco. (Note: ExxonMobil's flagship investment in Venezuela is Cerro Negro, one of four projects developed to handle the heavy oil of Venezuela's Orinoco heavy oil belt. At the time these projects were developed in the 1990's, they were given contractual royalty relief (one percent for nine years or until the company had earned three times the level of its investment). On October 10, 2004, President Chavez announced the unilateral decision of the GOV to eliminate that royalty relief. Since then, the GOV has also eliminated the contractual royalty relief granted to another ExxonMobil investment) La Ceiba, an exploration project dated from ¶1996. End Note.)

¶10. (C) ExxonMobil de Venezuela President Mark Ward told Senator Coleman that ExxonMobil has $1.5 billion invested in Cerro Negro and anticipates that the investment will grow to $2.2-2.3 billion over the 35 year life of the contract. The synthetic crude produced by Cerro Negro is exported to a dedicated refinery in the United States. Ward underlined that his company believes that the arguments cited by the GOV for its unilateral elimination of the royalty relief, (windfall profits due to high oil prices, etc.) were accommodated by the original contract. The Cerro Negro investment would have been recouped faster because of high oil prices and the royalty relief would have lasted for only six to seven years instead of the original nine. In light of this unwillingness to address the issue within the framework of the existing agreement, ExxonMobil had signaled to the GOV that it would be willing to seek international arbitration.

¶11. (C) Senator Coleman questioned how, if other international oil companies affected by the GOV decision had decided not to protest, ExxonMobil could so expose itself by making such a decision. Ward responded that ExxonMobil perhaps had a "different perspective" on contract sanctity than other companies. For ExxonMobil, he said, the sanctity of contracts is paramount. He noted that the original contract contained a process for modifying it that the GOV could have followed. Unilateral contract changes without compensation, he said, are very troubling.

¶12. (C) Senator Coleman responded that the mixed messages being sent by different companies create difficulties. Ward acknowledged this and said his company does not want to take the issue to arbitration. After months of requesting meetings with the GOV, he said, the company had recently had a first meeting and a dialogue had finally started.

¶13. (C) With respect to the issue of the difference in company approaches, Ward said he believed other companies had been "blackmailed" with the possibility of access to other opportunities in Venezuela. Their resource base in Venezuela is, he said, more important for certain other companies than it is for ExxonMobil. That being said, ExxonMobil is still willing to increase its investment in Venezuela. The risk, however, is higher and would have to be balanced with a commensurate fiscal package.

¶14. (U) This cable has not been reviewed by Senator Coleman or his staff.

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